APPENDIX

NOTE: The provisions of Section 115, paragraphs (b), (c) and (i) of the Revenue Act of 1934 have been substantially the same since the Revenue Act of 1924, but at that time were known as Section 201, (b), (c) and (g). The forerunners of Section 115, paragraphs (c) and (i) were first adopted in 1924. For that reason we include excerpts from the Committee Reports of the Congressional Committees regarding the intent and meaning of these sections.

Report of Committee on Ways and Means on the Revenue Act of 1924, H. R. 6715, 68th Congress, First Session. House Reports 179, Vol. 1, page 11.

(1) Sec. 20 (c): The existing law has no provision similar to subdivision (c) of the bill, but the Treasury has construed the existing law as taxing liquidating dividends not as capital gains, but as dividends subject to the surtax rates. The proposed bill, as did the 1918 Act, treats a liquidating dividend as a sale of the stock to the corporation and recognizes the time effect of such a distribution.

The theory of liquidating dividends is extended to distribution in partial liquidation. If a corporation retires a portion of its capital stock, the transaction is treated from the point of view of the stockholder as a sale of his stock. If the corporation distributes an amount in partial retirement of its capital stock, the amount thereof is to be considered as a return of capital, and taxable only if, and to the extent that, it exceeds the basis of the stock.

(2) It is provided in the last sentence of section 201 (c) of the proposed bill that amounts distributed in partial liquidation of a corporation shall not, to the extent that they are properly chargeable to capital account, be treated as earnings and profits for the purpose of determining the taxability of subsequent distributions by the corporation. No similar provision is contained in the existing law, although the provisions of the bill represent what is probably the correct construction of the existing law and unquestionably what is in accord with business practice.

Conference Report. House Report 844, 68th Congress, First Session, House Reports Vol. 4, statement of managers on part of the House at page 14.

> "Amendment No. 2. The House Bill provided that the gain from a liquidating dividend to the extent of earnings and profits accumulated by the corporation since March 1, 1913, should be treated as a dividend subject to the surtax rates. The Senate amendment strikes out this provision with the result that a liquidating dividend is to be treated as a sale of stock and taxable as a gain resulting from the sale of property and the House recedes."